IN THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF IOWA CENTRAL DIVISION

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MEREDITH CORPORATION,	*	
	*	4:04-cv-90273
Plaintiff,	*	
	*	
v. RIEGEL CONSUMER PRODUCTS and	*	
	*	
	*	
MT. VERNON MILLS,	*	MEMORANDUM OPINION
Defendants.	*	AND ORDER
	*	
	*	

Before the Court is Plaintiff's "Motion to Enjoin Defendants From Proceeding with a Later Filed Action in South Carolina Court" (Clerk's No. 5) and Defendants' "Motion to Dismiss for Want of Declaratory Judgment Jurisdiction, to Dismiss for Lack of Personal Jurisdiction, to Dismiss for a Non-Joinder of an Indispensable Party, in the Alternative to Decline Declaratory Judgment Jurisdiction, or in the Alternative to Transfer" (Clerk's No. 8). Plaintiff, Meredith Corporation ("Meredith"), filed the present Complaint on May 17, 2004. Service of process was made upon the Defendants, Riegel Consumer Products and Mt. Vernon Mills (collectively "Mt. Vernon"), on September 8, 2004. Thereafter, on September 13, 2004, Mt. Vernon filed a complaint in the United States District Court for the District of South Carolina claiming breach of contract and requesting declaratory judgment and construction relief.

Meredith asserts federal subject matter jurisdiction under 15 U.S.C. section 1121(a) and 28 U.S.C. sections 1331, 1338(a)-(b), and 1332. Meredith seeks a declaration that: "1) Meredith's termination of the License Agreement between Meredith, Riegel and Mt. Vernon dated July 9, 2002,

was proper in light of the allegations of infringement by Joseph J. Sitt; and 2) any further sale of the Articles by Riegel and Mt. Vernon, constitutes an infringement of Meredith's AMERICAN BABY mark." Meredith seeks this declaration pursuant to the Lanham Act, 15 U.S.C. section 1051 *et. seq.* and the Declaratory Judgment Act, 28 U.S.C. sections 2201-2202.

Mt. Vernon's later filed breach of contract and declaratory relief action in South Carolina involves the same License Agreement concerning the AMERICAN BABY marks. Meredith moved to enjoin Mt. Vernon from proceeding in the second filed action, Mt. Vernon made a timely Resistance. Mt. Vernon moves for dismissal of the present action on various theories, or in the alternative transfer of this action to South Carolina for consolidation with the second filed action. Both matters are fully submitted. The parties have agreed to stay the proceedings in the South Carolina District Court until the motions before this Court are resolved.

I. BACKGROUND

Plaintiff, Meredith Corporation, is an Iowa corporation with its principal place of business in Des Moines, Iowa. Defendant, Mt. Vernon Mills, is a Delaware corporation with its principal place of business in South Carolina. Defendant, Riegel Consumer Products, is an unincorporated division of Mt. Vernon Mills, with its principal place of business in South Carolina. The present action involves the interpretation of terms in a License Agreement, wherein "PRIMEDIA hereby licenses to Licensee the right to use the Property on the Licensed Articles in, and only in, the Distribution Channels throughout the Territory during the Term." PRIMEDIA was the original licensor of the AMERICAN BABY

¹ The language from the License Agreement defines property and licensed articles as follows: <u>The Property</u> means and shall be deemed to include the name, trademark, and logotype

marks on certain licensed articles to licensee, Mt. Vernon. On November 1, 2002, PRIMEDIA sold to Meredith its American Baby Group and assigned all rights and obligations under the License Agreement to Meredith.² On March 12, 2003, Meredith mailed to Mt. Vernon an assignment consent and acknowledgment form, which Mt. Vernon signed on March 25, 2003. During the period from March 2003 to February 2004, Meredith and Mt. Vernon had various contacts in relation to performance of the License Agreement. One such contact included a visit from one of Mt. Vernon's vice-presidents to Meredith's headquarters, located in Iowa. Performance under the License Agreement continued until February 18, 2004, when Meredith sent Mt. Vernon notice that it was withdrawing from the License Agreement all licensed articles.

Meredith defends its withdrawal of all licensed articles based on the last sentence in the <u>Limitations on License</u> clause of the License Agreement; "PRIMEDIA may withdraw from this Agreement any Licensed Articles which may infringe on the rights of any third party." The letter

of "AMERICAN BABY" (the "Magazine") as heretofore contained on the Magazine, to the fullest extent that PRIMEDIA has, or may hereafter obtain, the right to use same on the Licensed Articles at no additional cost

<u>The Licensed Articles (Product Definition)</u>: Infant bedding and associated products, including bedding sets, all types of sheets, sheet sets, pillowcases, comforters, bumper guards, quilts, hooded towels and washcloths, all types of blankets, all types of waterproof pads, dust ruffles, diaper stackers, valances, and coverlets.

² The assignment clause in the License Agreement, 13(b), reads: "This Agreement and any rights herein granted are personal to Licensee and shall not be assigned, sublicensed, or encumbered without PRIMEDIA's prior express written approval which may be withheld in PRIMEDIA's sole discretion. PRIMEDIA shall be entitled to assign its rights hereunder to any other party."

dated February 18, 2004, from Meredith to Mt. Vernon states:

Therefore, regrettably, because Sitt has alleged that Meredith and its licensees [sic] use or proposed use of AMERICAN BABY infringes Sitt's registered AMERICAN BABY mark, Meredith hereby withdraws from the Agreement infant bedding and associated products (the "Withdrawn Articles") from the list of Licensed Articles on the basis that they may infringe the rights of a third party. The Withdrawn Articles include each of the articles that Riegel has manufactured and/or assembled pursuant to the License Agreement.

Sitt refers to Joseph J. Sitt, owner of the registered trademark AMERICAN BABY (Reg. No. 1,772,408) for infant's and children's wearing apparel. Meredith also owns a valid registration for the AMERICAN BABY mark.³ At issue is the scope of the each party's AMERICAN BABY mark. At the time Meredith withdrew the licensed articles from the License Agreement, Sitt had filed various oppositions to Meredith's new applications, but had not filed an opposition to Meredith's application, Serial No. 78/198,878, for bedding goods in Class 24, which would include the licensed articles. Sitt also filed a cancellation of another mark, ABC AMERICAN BABY CO. (Reg. No. 2,098,833), registered by a third unrelated party, for "linens and bed covers, namely, blankets, sheets, bed pads and towels." Based upon these actions, Meredith concluded that the phrase "may infringe on the rights of any third party" was fulfilled, withdrew the licensed articles, and effectively terminated the License Agreement. Both in the February 18, 2004, letter and the present Complaint, however, Meredith states that it does not believe that Sitt will prevail in any infringement claim involving Meredith's

³ Meredith is the owner of the United States trademark registration for the AMERICAN BABY mark in connection with magazines, entertainment services in the nature of a news and information television program, and online retail services. U.S. Reg. Nos. 1,908,875 and 2,550,825. Meredith is also the owner of several pending United States trademark application for the AMERICAN BABY mark in connection with a wide variety of goods and services.

AMERICAN BABY mark.

Mt. Vernon disagreed with Meredith's interpretation of the License Agreement and assessment of the situation, and sent the following reply on February 20, 2004: "We do not believe you have the right to withdraw infant bedding from the License Agreement at this time, effectively terminating it, and would strongly urge you to re-consider your position." Mt. Vernon continued in the letter to state that, Mt. Vernon had "hundreds of thousands of dollars of AB [AMERICAN BABY] infant bedding ready to ship to a very important customer," and pointed out Meredith's obligations under the License Agreement to indemnify Mt. Vernon against any claim of infringement.⁴

Meredith responded on February 23, 2004, standing firm in its position that the withdrawal was proper. Meredith also stated: "If you have other proposals with how to proceed, we are willing to discuss them with you." Mt. Vernon replied on March 16, 2004, again disagreeing with Meredith's actions. Mt. Vernon informed Meredith that it had incurred expenses in reliance on Meredith having the right to license the use of the AMERICAN BABY trademark and stated: "We will prepare and shortly forward a statement detailing those expenses, and prompt payment will be appreciated." Mt. Vernon's letter detailing expenses, totaling \$383,784.90, was sent on April 26, 2004.

On May 17, 2004, Meredith filed the present Complaint. However, Meredith did not immediately complete service of process on Mt. Vernon or otherwise inform it of the lawsuit. Instead,

⁴ In the Licenses Agreement under the section titled – 8. INDEMNIFICATION: INSURANCE it reads:

⁽b) PRIMEDIA hereby agrees to be solely responsible for, to defend and to indemnify Licensee and to hold it harmless from any Claims that PRIMEDIA does not own the trademark to the Property in the United States of America and have the right to license the rights therein as permitted by this Agreement

Meredith continued in settlement negotiations with Mt. Vernon and first informed Mt. Vernon of the lawsuit in a letter dated August 25, 2004:

I am attaching hereto a courtesy copy of a lawsuit that Meredith filed here in Des Moines, Iowa in mid-May 2004. It is a lawsuit for declaratory judgment, and asks the Court to declare that Meredith was well within its rights to act as it did. We have not yet formally served you with this lawsuit. Rest assured that if this matter must proceed further, we will amend the lawsuit to assert the aforesaid infringement allegations based upon your sale of goods with the American Baby trademark after those goods had been removed from the License Agreement.

Service of process upon Mt. Vernon was completed on September 8, 2004. Mt. Vernon filed its lawsuit in South Carolina on September 14, 2004. The Court will first explore Mt. Vernon's motions to dismiss under Federal Rule of Civil Procedure 12, followed by a discussion of the equitable factors concerning Meredith's motion to enjoin and Mt. Vernon's motion to decline declaratory jurisdiction or, in the alternative, to transfer.

II. LAW AND ANALYSIS

A. Mt. Vernon's Motion to Dismiss for Lack of Declaratory Judgment Jurisdiction

Declaratory relief is authorized by the Declaratory Judgment Act, 28 U.S.C. sections 2201 and 2202. Under the Declaratory Judgment Act, "in cases of actual controversy . . . any court of the United States, upon the filing of an appropriate pleading, may declare the rights and other legal relations of any interested party seeking such declaration, whether or not further relief may be sought" 28 U.S.C. § 2201. "The word 'actual' is one of emphasis rather than definition In providing remedies and defining procedure in relation to cases and controversies in the constitutional sense. . . ."

Aetna Life Ins. Co. v. Haworth, 300 U.S. 227, 240 (1937). The case "must be a real and substantial controversy admitting of specific relief through a decree of a conclusive notice, as distinguished from an

opinion advising what the law would be upon a hypothetical state of facts." *Aetna Life Ins. Co.*, 300 U.S. at 241. "The Declaratory Judgment Act exists as an instrument to protect the citizen against the dangers and damages that may result from his erroneous belief as to his rights under state or federal law." *Public Serv. Comm'n. v. Wycoff Co., Inc.*, 344 U.S. 237, 250-51 (1952) (Reed, J., concurring) (citing *Great Lakes Co. v. Huffman*, 319 U.S. 293, 300 (1943)).

There are two principal situations when it is proper to grant declaratory relief: 1) when the judgment will serve a useful purpose in clarifying and settling the legal relations in issue; and 2) when it will terminate and afford relief from the uncertainty, insecurity, and controversy giving rise to the proceedings. Alsager v. District Ct. of Polk County, 518 F.2d 1160, 1163 (8th Cir. 1975).

Meredith's Complaint only consists of a request for declaratory relief. Therefore, the action must fit under the second situation. "Basically, the question in each case is whether the facts alleged, under all of the circumstances, show that there is a substantial controversy, between parties having adverse legal interests, of sufficient immediacy and reality to warrant the issuance of a declaratory judgment."

Sherwood Med. Indus., Inc. v. Deknatel, Inc., 512 F.2d 724, 727 (8th Cir. 1975) (quoting Maryland Cas. Co. v. Pacific Coal & Oil Co., 312 U.S. 270 (1941)). Mt. Vernon argues that there is no present case or controversy created by Sitt's filings of opposition proceedings, or by the letter correspondence between Meredith and Mt. Vernon.

Mt. Vernon first argues that there is no declaratory judgment jurisdiction because an opposition proceeding, like the one filed by Sitt, does not create a true case or controversy. It is true that an opposition proceeding is not the same as a charge of trademark infringement. "As we interpret and construe the Notice of Opposition, it is not a claim of infringement, or an assertion that infringement is

threatened or has actually occurred." *Merrick v. Sharp & Dohme, Inc.*, 185 F.2d 713, 716 (7th Cir. 1950). Unlike the case in *Merrick*, however, Meredith's request involves contract interpretation, and does not require that this Court declare trademark infringement has occurred. The question is not whether Sitt would ultimately be successful in an infringement claim, but rather, if on February 18, 2004, the situation was such that Meredith could withdraw all licensed articles from the License Agreement because they "may infringe on the rights of any third party."

As such, the true case or controversy arises from the parties' dispute regarding interpretation of the License Agreement. Mt. Vernon contends that its letters were not a threat to file suit for contract breach and, therefore, do not give rise to a justiciable case or controversy. Strictly speaking, the words "will file suit" were never found in the letters from Mt. Vernon to Meredith. The letters, however, dating from February 18, 2004 to the filing of this lawsuit on May 17, 2004, evidence a definite dispute between the parties regarding interpretation of the License Agreement. In a letter dated April 26, 2004, Mt. Vernon gave Meredith a figure of \$383,784.90 in damages that it had suffered, "because of Meredith's action." Meredith's request asks the Court to analyze a static contract and the actions taken by the parties over a year ago. Therefore, it fits the requirement that "[t]he disagreement must not be nebulous or contingent but must have taken on fixed and final shape so that a court can see what legal issues it is deciding, what effect its decision will have on the adversaries and some useful purpose to be achieved in deciding them." Public Serv. Comm'n, 344 U.S. at 243-244. However, The Declaratory Judgment Act ". . . is an enabling Act, which confers a discretion on the courts rather than an absolute right upon the litigant." Id. at 241. Although a case or controversy exists, the Court must evaluate which is the proper forum for this action. This issue will be discussed following the sections

concerning the remaining jurisdictional issues.

B. Mt. Vernon's Motion to Dismiss for Lack of Personal Jurisdiction

Mt. Vernon's second jurisdictional argument is that it lacks sufficient contacts with the State of Iowa such that it could "reasonably anticipate being haled into court there." World-Wide Volkswagen Corp. v. Woodson, 444 U.S. 286, 295 (1980). Ultimately, the plaintiff bears the burden of proving personal jurisdiction over the defendant. Watlow Elec. Mfg. v. Patch Rubber Co., 838 F.2d 999, 1000 (8th Cir. 1988). Personal jurisdiction, however, need not be proved by a preponderance of the evidence until trial or until an evidentiary hearing is held. Dakota Indus., Inc. v. Dakota Sportswear, Inc., 946 F.2d 1384, 1387 (8th Cir. 1991). To defeat a motion to dismiss for lack of personal jurisdiction, the nonmoving party need only make a prima facie showing of jurisdiction. Digi-tel Holdings, Inc. v. Proteg Telecomm., Ltd., 89 F.3d 519, 522 (8th Cir. 1996) (citing Northrup King Co. v. Compania Productora Semillas Algodoneras Selectas, S.A., 51 F.3d 1383, 1387 (8th Cir. 1995); Bell Paper Box, Inc. v. U.S. Kids, Inc., 22 F.3d 816, 818 (8th Cir. 1994); Watlow Elec. Mfg. Co., 838 F.2d at 1000. When examining the prima facie showing, the court must view the evidence in the light most favorable to the plaintiff and resolve all factual conflicts in the plaintiff's favor. Digi-tel Holdings, Inc., 89 F.3d at 522 (citing Dakota Indus., 946 F.2d at 1387).

Determining whether the Court may properly exercise personal jurisdiction over a foreign corporation involves a two-step analysis. *Dakota Indus.*, 946 F.2d at 1387-88. First, the exercise of jurisdiction must be appropriate under the relevant state long-arm statute. *Stanton v. St. Jude Med.*, *Inc.*, 340 F.3d 690, 693 (8th Cir. 2003) (citing *Dakota Indus.*, 946 F.2d at 1387). Second, the court examines "whether the exercise of personal jurisdiction comports with the requirements of due

process." *Stanton*, 340 F.3d at 693. The relevant long-arm statute in this case, Iowa Rule of Civil Procedure 1.306 (formerly Rule 56.2) permits jurisdiction to the fullest constitutional extent. *See Hicklin Eng'g, Inc. v. Aidco, Inc.*, 959 F.2d 738, 739 (8th Cir. 1992); *Larson v. Scholl*, 296 N.W.2d 785, 788 (Iowa 1990). In other words, Iowa's long-arm statute is satisfied if the exercise of personal jurisdiction over the defendant satisfies the requirements of the Due Process Clause of the Fourteenth Amendment.

The Due Process Clause requires that the exercise of personal jurisdiction over a person does not offend "our traditional conception of fair play and substantial justice." International Shoe Co. v. Washington, 326 U.S. 310, 320 (1945). "The Due Process Clause protects an individual's liberty interest in not being subject to the binding judgments of a forum with which he has established no meaningful 'contacts, ties, or relations.'" Burger King Corp. v. Rudzewicz, 471 U.S. 462, 471-472 (1985) (citing *International Shoe*, 326 U.S. at 319). "Due process requires only that in order to subject a defendant to a judgment *in personam* . . . he have certain minimum contacts with it such that maintenance of the suit does not offend traditional notions of fair play and substantial justice." International Shoe, 326 U.S. at 316 (internal quotations and citations omitted). In the analysis, it is crucial to look to the defendant's own actions to see if there is "purposeful availment," whereby the defendant, creates a "substantial connection" with the forum state. See Hanson v. Denckla, 357 U.S. 235, 253 (1958) (purposeful availment invokes the benefits and protections of the forum's laws); Keeton v. Hustler Magazine, Inc., 465 U.S. 770, 774 (1983) (purposeful availment ensures that jurisdiction is not a result of "random," "fortuitous," or "attenuated" contacts).

The Eighth Circuit has developed a five-factor test to determine whether a nonresident

defendant has sufficient minimum contacts with the forum state to be subject to personal jurisdiction. *Stanton*, 340 F.3d at 694 (citing *Austad Co. v. Pennie & Edmonds*, 823 F.2d 223, 226 (8th Cir. 1987). Under this test, the Court must consider: "(1) the nature and quality of contacts with the forum state; (2) the quantity of contacts with the forum; (3) the relation of the cause of action to these contacts; (4) the interest of the forum state in providing a forum for its residents; and (5) the convenience of the parties." *Id.* Of the five factors, "the first three factors are of primary importance, and the last two are 'secondary factors." *Id.* "Because the first three factors are closely interrelated, we consider them together." *Digi-tel Holdings, Inc.*, 89 F.3d at 523.

In the present case, Mt. Vernon and Meredith, a corporation headquartered in Iowa, are parties to a License Agreement. However, "the mere entering into a contract alone cannot confer jurisdiction." *Burger King Corp.*, 471 U.S. at 478. "In a contract case a court must consider the parties' prior negotiations, contemplated future consequences and actual course of dealings. The terms of the contract must be taken into account as well." *St. Jude Med., Inc. v. Lifecare Int'l, Inc.*, 250 F.3d 587, 591 (8th Cir. 2001) (citing *Burger King Corp.*, 471 U.S. at 479). Mt. Vernon had no prior negotiations with Meredith before signing the License Agreement because Meredith gained its rights under the Licensee Agreement by assignment. The original licensor, PRIMEDIA, is a New York Company headquartered in New York. However, Mt. Vernon had contacts with Iowa after the assignment. First, Meredith sent an assignment consent form to Mt. Vernon, which Mt. Vernon signed. Second, after the assignment, Mt. Vernon and Meredith performed under the License Agreement in both South Carolina and Iowa. The performance included a visit from one of Mt. Vernon's vice-presidents to the state of Iowa.

These contacts are more substantial than those found in *Red Wing Shoe Co., Inc. v. Hockerson-Halberstadt, Inc.,* 148 F.3d 1355 (Fed. Cir. 1998), which Mt. Vernon relies on in it argument regarding lack of personal jurisdiction. In *Red Wing Shoe*, the defendant's only contacts with the forum "were efforts to give proper notice of its patent rights" and included only three letters. *Red Wing Shoe,* 148 F.3d at 1361. In contrast, Mt. Vernon's performance under the License Agreement has in large part occurred in Iowa. In addition to telephone and written correspondence, Mt. Vernon has sent quality control tests, samples and royalty payments to Meredith. When Mt. Vernon signed the License Agreement with PRIMEDIA, it knew the Agreement was freely assignable. Further, it consented to the assignment. Meredith filed the present action almost a year after the initial assignment of the License Agreement, under which Mt. Vernon performed, in part, in Iowa.

Meredith has also alleged that Mt. Vernon has other contacts with the State of Iowa, namely the continuous and systematic sale of goods in the state. These sales do not directly relate to the License Agreement, but nonetheless are contacts which warrant the exercise of personal jurisdiction. "Even when the cause of action does not arise out of or relate to the foreign corporations activities in the forum State, due process is not offended by a State's subjecting the corporation to its in personam jurisdiction when there are sufficient contacts between the State and the foreign corporation."
Helicopteros Nacionales de Columbia, S.A. v. Hall, 406 U.S. 408, 414 (1984). Mt. Vernon does not specifically refute that it continuously and systematically sells goods in the state of Iowa, but only responds that "[t]his is of course speculation, but even if true would further reflect a necessary element of performing under the contract— i.e. that a national sales program was required in order to provide substantial performance under the contract." Viewing the facts in the light most favorable to Meredith,

it appears that Mt. Vernon does sell goods in the state of Iowa, subjecting it to personal jurisdiction. At this stage of the proceedings a prima facie showing has been made that the exercise of personal jurisdiction over Mt. Vernon comports with Due Process standards of "fair play and substantial justice."

C. Mt. Vernon's Motion to Dismiss for Failure to Join an Indispensable Party

Mt. Vernon also argues for dismissal pursuant to Federal Rule of Civil Procedure 12(b)(7) for failure to join an indispensable party. Rule 12(b)(7) allows dismissal of a lawsuit for "failure to join a party under Rule 19." Fed. R. Civ. P. 12(b)(7). "Rule 19 provides for joinder of all parties whose presence in a lawsuit is required for the fair and complete resolution of the dispute at issue." *HS Resources, Inc. v. Wingate,* 327 F.3d 432, 438 (5th Cir. 2003). "The court must first determine under Rule 19(a) whether a person should be joined to the lawsuit." *Id.* at 439. Rule 19(a)—"Persons to be Joined if Feasible"—calls for joinder of parties if:

- 1) in the person's absence complete relief cannot be accorded among those already parties, or 2) the person claims an interest relating to the subject of the action and is so situated that the disposition of the action in the person's absence may
 - i) as a practical matter impair or impede the person's ability to protect that interest or ii) leave any of the persons already parties subject to substantial risk of incurring double, multiple, or otherwise inconsistent obligations by reasons of the claimed interest.

Fed. R. Civ. P. 19(a). As explained, *supra*, Meredith's request for declaratory relief concerns only interpretation of the License Agreement. Mt. Vernon asserts that Sitt must be joined for resolution of the lawsuit. Sitt, however, is not a party to the License Agreement. Moreover, Meredith's inquiry does not necessitate this Court to determine whether infringement actually occurred. Therefore, Sitt's absence does not prejudice his rights in his trademark, nor leave either of the present parties vulnerable to multiple obligations. Meredith is seeking a declaration only that it was within its rights, according to

the License Agreement, to withdraw the licensed articles because the articles *may* infringe on the rights of a third party. "Fair and complete resolution" of the declaratory request can be made without joining Sitt in the action. Therefore, further application of Rule 19 is not required and Mt. Vernon's motion to dismiss under 12(b)(7) is denied.

D. First-filed Rule

Since the Court has found that there are no defects in jurisdiction it turns next to the remaining Motions: Plaintiff's Motion to Enjoin the Defendants in the South Carolina Action and Defendants' Motion to Decline Declaratory Judgment Jurisdiction or in the Alternative to Transfer. Each motion necessitates application of the present facts to the first-filed rule. Simply stated, the first-filed rule requires "that in cases of concurrent jurisdiction, the court in which jurisdiction first attaches has priority to hear the case." Northwest Airlines Inc. v. American Airlines, Inc., 989 F.2d 1002, 1005 (8th Cir. 1993) (quoting Orthmann v. Apple River Campground Inc., 765 F.2d 119, 121 (8th Cir. 1985)). The rule "gives priority, for choosing among possible venues when parallel litigation has been instituted in separate courts, to the party who first establishes jurisdiction." Northwest Airlines, 989 F.2d at 1006. "The discretionary power of the federal court in which the first-filed action is pending to enjoin the parties from proceeding with a later-filed action in another federal court is firmly established." *Id.* at 1005. The purpose of the first-filed rule is to "conserve judicial resources and avoid conflicting" rulings" Id. at 1006. In the present case, if the first-filed rule is followed, the present action, filed May 17, 2004, has priority over the South Carolina action filed September 14, 2004. Mt. Vernon, however, argues that the first-filed rule should not be followed in this case.

"The first-filed rule is not intended to be rigid, mechanical, or inflexible, but is to be applied in a

manner best serving the interests of justice" *Boatmen's First Nat'l Bank of Kansas City v. Kansas Pub. Employees Retirement Sys.*, 57 F.3d 638, 641 (8th Cir. 1995) (quoting *Northwest Airlines*, 989 F.2d 1005) (internal quotations and citations omitted). "The prevailing standard is that in the absence of compelling circumstances the first-filed rule should apply." *Northwest Airlines*, 989 F.2d at 1005 (internal quotations and citations omitted). Exceptions to the first filed rule have been classified as: 1) the "dead heat" exception; 2) the "balance of convenience" exception; and 3) the "compelling circumstances" exception. *See RX Dixon Co. v. Dealer Mktg. Serv., Inc.*, 284 F. Supp. 2d 1204 (S.D. Iowa 2003) ("The 'dead heat' exception arises when the closeness of filing times of petitions makes application of the rule inappropriate."); *see also Med-Tec Iowa, Inc. v. Nomos Corp.*, 76 F. Supp. 2d 962, 970 (N.D. Iowa 1999) (explaining that courts sometimes analyze "balance of convenience" factors as analogous to the factors considered in motions to transfer venue under 28 U.S.C. § 1404); *Northwest Airlines*, 989 F.2d at 1007 (identifying certain "red flags" that are indicators of "compelling circumstances" to preclude application of the first-filed rule).

In this case, the "dead heat" exception does not apply, as the South Carolina action was filed nearly four months after the present action. Also, under the "balance of convenience" factors, Mt.

Vernon has not made a convincing case that litigation in South Carolina is more convenient "for the parties and witnesses." Mt. Vernon is headquartered in South Carolina, but Meredith is headquartered in Iowa. As parties to the License Agreement, each has, an interest in litigating at home.

⁵ 28 U.S.C. § 1404(a) For the convenience of parties and witnesses, in the interest of justice, a district court may transfer any civil action to any other district or division where it might have been brought

A mere shifting of inconvenience from one party to the other, however, is not sufficient to justify a venue transfer under 1404. *Terra Int'l, Inc. v. Mississippi Chem. Corp*, 119 F.3d 688, 696 (8th Cir. 1997). It is the "compelling circumstances" exception that most closely fits the current situation.

In *Northwest Airlines*, the Eighth Circuit identified two factual indicators, or "red flags", that evidence compelling circumstances. The first "red flag" is that the party who filed "first" was on notice that the other party was considering filing suit. *Northwest Airlines*, 989 F.2d at 1007. The second "red flag" is that the "first" filed action is one only for declaratory judgment. *Id*. Both "red flags" are flying on the current facts. Meredith was on notice that Mt. Vernon believed Meredith was in breach of the License Agreement. Mt. Vernon even made an itemization of its damages. However, like the situation in *Northwest Airlines*, Mt. Vernon's letter gave no indication that a lawsuit was imminent, evidencing a "race to the courthouse." *Id*. The more compelling factor here is that Meredith's Complaint is solely for declaratory relief, which "may be more indicative of a preemptive strike than a suit for damages or equitable relief." The Eighth Circuit has directed district courts to "consider the factual circumstances in each case before applying the rule." *Boatmen's First Nat'l*, 57 F.3d at 641. Therefore, Meredith's request for declaratory relief must be closely examined.

The Court first notes the general proposition that, "declaratory judgments are not to be used defensively to deny a prospective plaintiff's choice of forums." *Prudential Ins. Co. of Am. v. Does*, 140 F.3d 785, 790 (8th Cir. 1998). "In examining the propriety of such a declaratory action, we realign the parties to reflect the actual controversy underlying the action." *BASF v. Symington*, 50 F.3d 555, 557 (8th Cir. 1995) (citing *Public Serv. Comm'n*, 344 U.S. at 248). In Meredith's own words in its August 25, 2004, letter to Mt. Vernon, it filed the declaratory action in order for "the Court

to declare that Meredith was well within its right to act as it did." This statement by Meredith indicates that Mt. Vernon is the "true plaintiff." Moreover, the letter further stated that if Mt. Vernon did sell goods with the AMERICAN BABY trademark, Meredith would "amend the lawsuit to assert the aforesaid infringement allegations." No such amendment was made and it is clear that at the time of filing, there was no threat of sufficient immediacy to indicate that Meredith's intentions were anything but an attempt to deprive Mt. Vernon of its choice of forum. See Solna Web, Inc. v. Printed Media Serv., Inc., 1990 U.S. Dist. LEXIS 11554 (W.D. Mo. 1990) (dismissing a first-filed declaratory judgment action because it was an attempt to deprive the real plaintiff his or her choice of forum); see also Super Sack Mfg. Corp. v. Chase Packaging Corp., 57 F.3d 1054 (Fed. Cir. 1995) ("The second part of our test of declaratory justiciability . . . requires that the putative infringer's 'present activity' place it at risk of infringement liability").

In *Northwest Airlines*, the Eighth Circuit allowed a first-filed declaratory action to proceed because it was not filed to deprive the true plaintiff its choice of forum, but rather was filed because, "its [Northwest Airlines] hiring was chilled by American's intimation that Northwest was violating the law." *Northwest Airlines*, 989 F.2d 1002. In contrast, in *Anheuser-Busch*, *Inc. v. Supreme Int'l Corp.*, 167 F.3d 417 (8th Cir. 1999), the Eighth Circuit upheld the district court's dismissal of a first filed declaratory judgment action because, "Anheuser had not alleged any adverse effects" necessitating declaratory relief. *Anheuser-Busch*, 167 F.3d at 419. The present case more closely resembles *Anheuser-Busch* in that Meredith has not alleged any adverse effects on its business that prompted the Complaint.

The present factual situation is also nearly identical to a case decided in the United States

District Court for the District of Nebraska. *Schwendiman Partners, LLC v. Hurt,* 71 F. Supp. 2d 983 (D. Neb. 1999). In *Schwendiman*, the plaintiff had filed a declaratory action regarding contract interpretation, "as a sort of insurance policy," while it continued in negotiations with the defendant. The court stated:

The declaratory nature of Schwendiman's lawsuit; Schwendiman's facade of negotiation with Hurt – upon which Hurt relied – despite Schwendiman's knowledge that it had already filed its Nebraska lawsuit; and Schwendiman's service of summons upon Hurt immediately after Hurt threatened legal action convince me that the first-filed rule should not apply in this case and Hurt's motion to dismiss should be granted in favor of his action now pending in the United States District Court for the Western District of Virginia.

Schwendiman Partners, LLC, 71 F. Supp. 2d at 989. This Court is similarly convinced.

First, Meredith filed the request for declaratory relief in an attempt to preempt Mt. Vernon's choice of forum for its breach of contract claim. Second, Meredith filed the declaratory action in secret, while continuing in negotiations with Mt. Vernon for over three months. This evidences bad faith on the part of Meredith, and prejudice to Mt. Vernon because it relied on Meredith's assertions that the parties were proceeding in settlement negotiations. The nature of the declaratory request and the manner in which Meredith proceeded in its filing and serving of the Complaint, together create the "compelling circumstances," which dictate that the Court deviate from the first-filed rule. These compelling circumstances highlight that South Carolina is the proper forum for the present conflict.

III. CONCLUSION

The Court makes the following findings: First, Meredith's request for declaratory relief does constitute a true "case or controversy." Second, the case or controversy does not necessitate the joinder of Joseph Sitt. Third, Mt. Vernon's minimum contacts with Iowa are sufficient to create a

prima facie case that the exercise of personal jurisdiction over the Defendants is proper. Fourth and finally, however, the Court finds that compelling circumstances exist which weigh against application of the first-filed rule. As such, the Court declines to exercise declaratory judgment jurisdiction in the present case. Accordingly, Defendants' Motion to Dismiss (Clerk's No. 8) is GRANTED without prejudice to Plaintiff's right to file appropriate counterclaims in the litigation currently pending in the United States District Court for the District of South Carolina. Moreover, Plaintiff's Motion to Enjoin (Clerk's No. 5) is DENIED, and Defendants' Alternative Motion to Transfer is DENIED as moot.

IT IS SO ORDERED.

Dated this ___31st___ day of January, 2005.

ROBERT W. PRATT
U.S. DISTRICT JUDGE